



Raising Money Alternatively

Learning Objectives



1

Review the role of financial intermediaries in the funding process



2

Understand what is crowdfunding and examine different types of crowdfunding



3

Get insights of current growth of crowdfunding and discuss the benefits and issues with crowdfunding



4

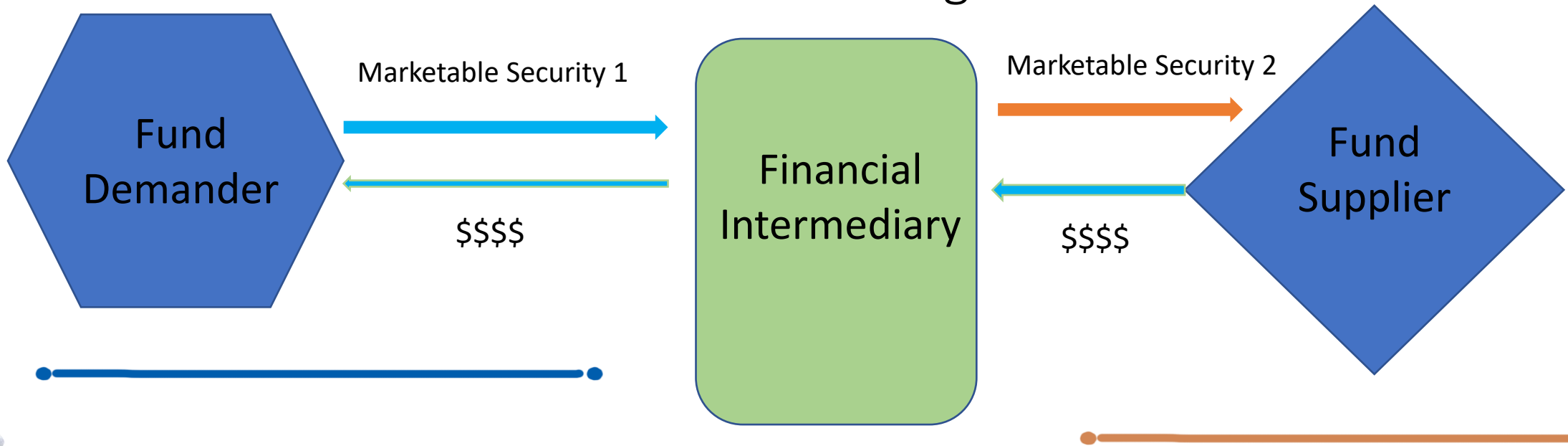
Evaluate how crowdfunding is disrupting the traditional financial intermediaries as an alternative method to financing.

Direct Financing



Surplus and deficit units exchange funds and securities directly. **One** financial asset is created.

Indirect financing



An intermediary creates and distributes new financial claims upon itself. **Two** financial assets are created in this process.

Fund Suppliers

Why Intermediaries?

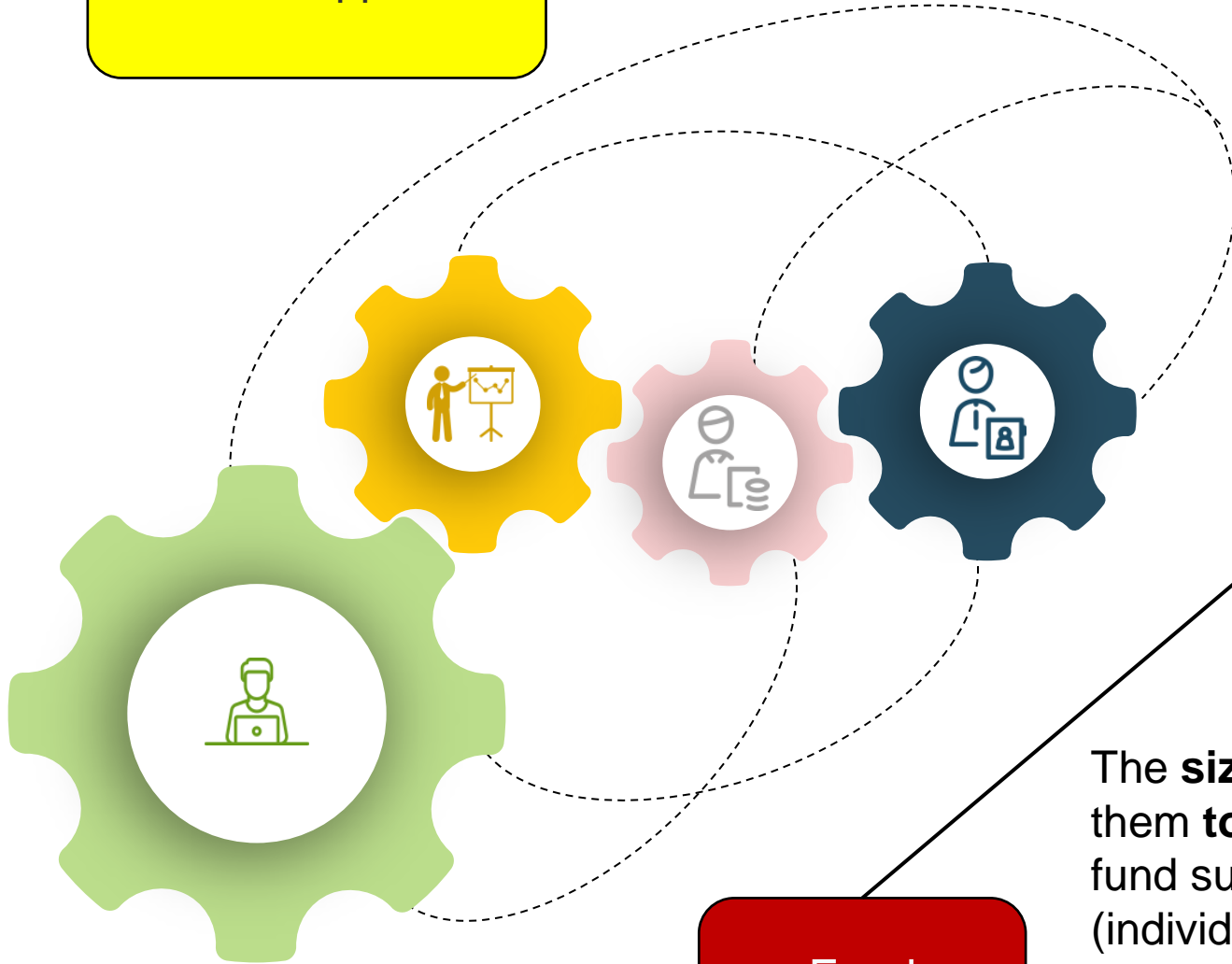
Risk
Transformation

Liquidity
Transformation

Asset
Transformation
Maturity
Transformation

The **size** and **expertise** of financial intermediaries allows them **to cost effectively match** the conflicting needs of fund suppliers (investors) and fund demanders (individuals and organizations)

Fund
Demanders



Why NOT Intermediaries?

Changing Mindset ,Technologies and Regulations



- The 2007/2009 financial crisis severely shook the brand image of traditional financial intermediaries, especially banks;
- Customers in many financial services areas have shifted their mindset regarding who has the resources and legitimacy to provide financial services

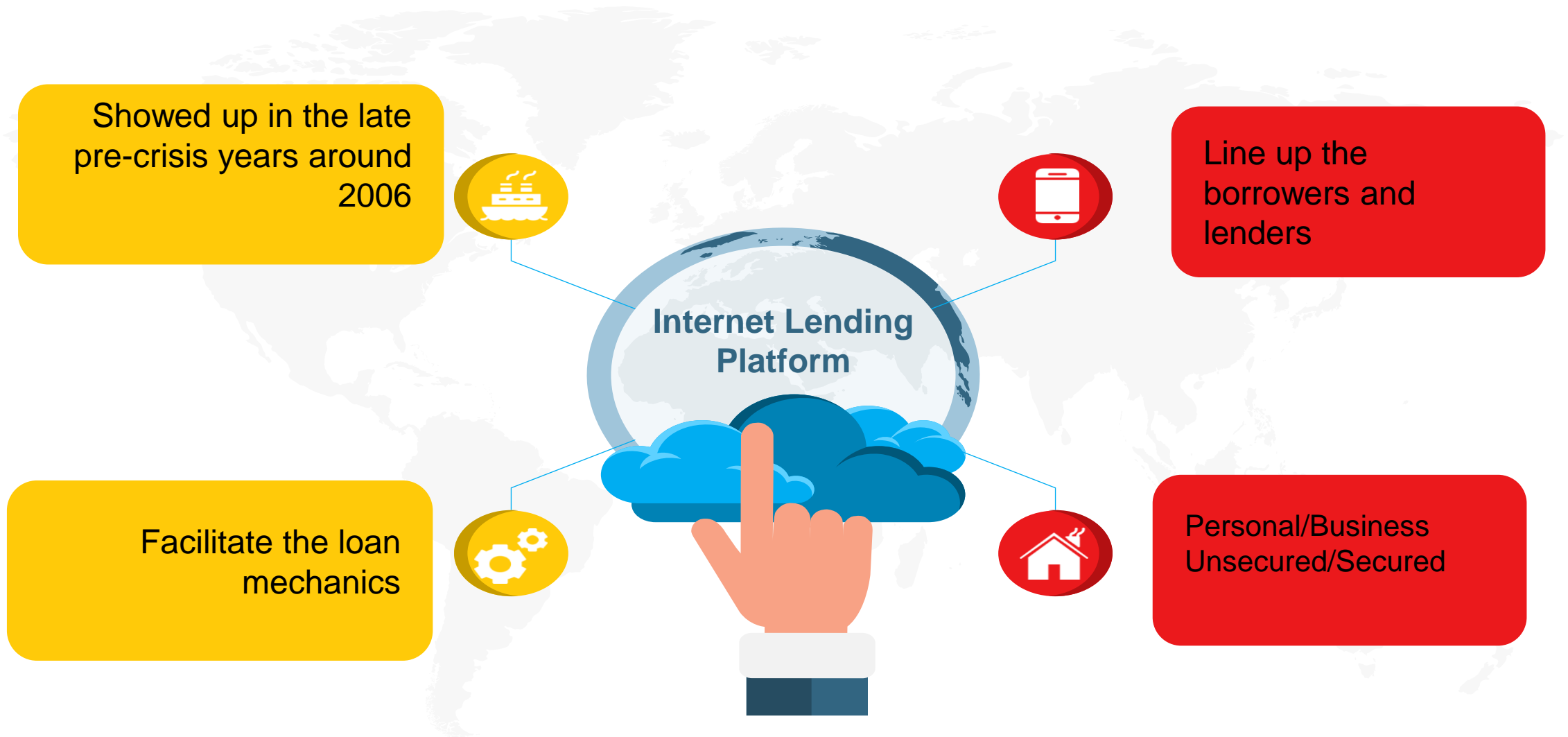


Crowdfunding



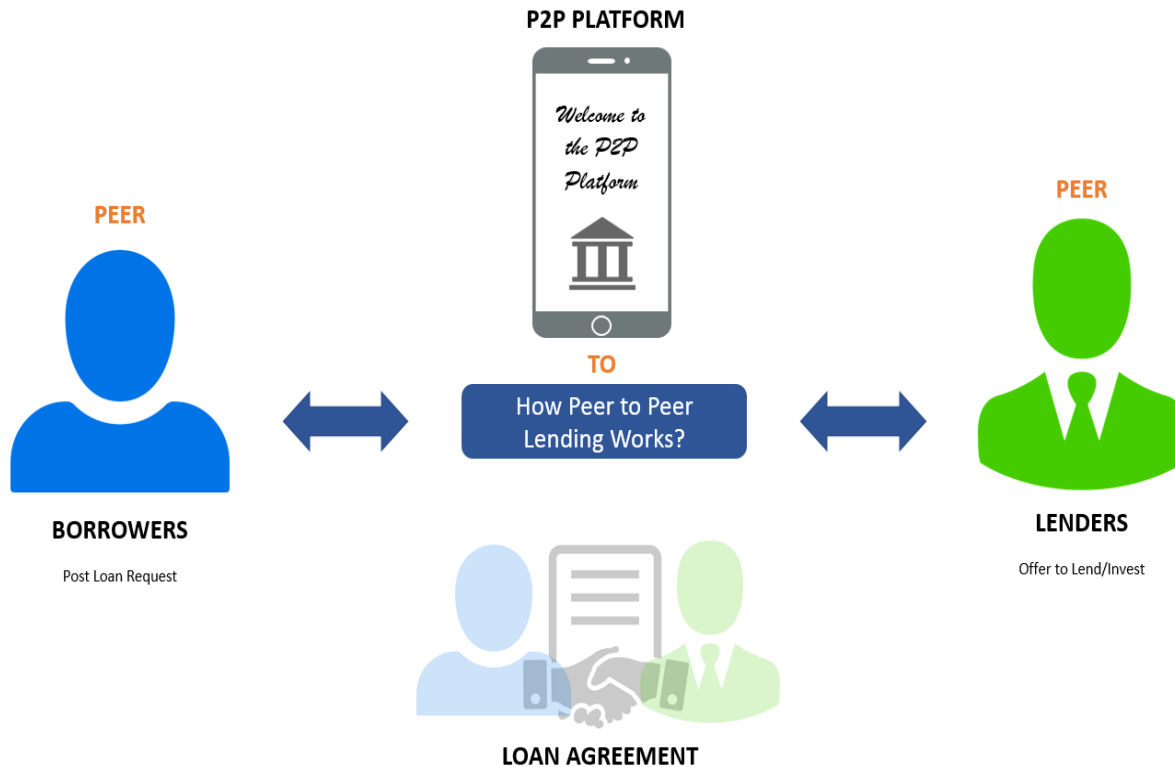
- An open call to provide financial resources, which mostly takes place on **Internet-based platforms** without standard financial intermediaries
- An existing FinTech innovation that **may remove** finance intermediaries
- Two Classes
 - Investment-based
 - Peer to Peer Lending
 - Royalty
 - Equity
 - Reward- and donation-based

Peer to Peer Lending (P2P) /Marketplace Lending



Peer to Peer Lending (P2P) /Marketplace Lending

Why NOT Banks?



Lower cost of borrowing

Online P2P platforms **have lower overhead costs**, and can therefore provide cheaper lending than traditional financial institutions.

Easier access of fund

Borrowers are seeking for alternative ways of fund due to stricter regulations after GFC

Higher return on lending

Borrowers are seeking for alternative ways of fund due to stricter regulations after GFC

P2P Examples



Launched on Facebook as one of Facebook's first apps in 2006

Unsecured Personal Loans
\$1000 to \$40000 USD
Up to 3 years

The first P2P lender to register its offerings as securities with the Securities and Exchange Commission, US.



The world **first** P2P platform, 2005 in UK

Have risen dramatically since 2007, especially in Southeast Asia and China



Peer to Peer Lending (P2P) /Marketplace Lending

Mitigate Credit Risk:
diversifying investments
among different borrowers

Mitigate credit risk:
chose borrowers

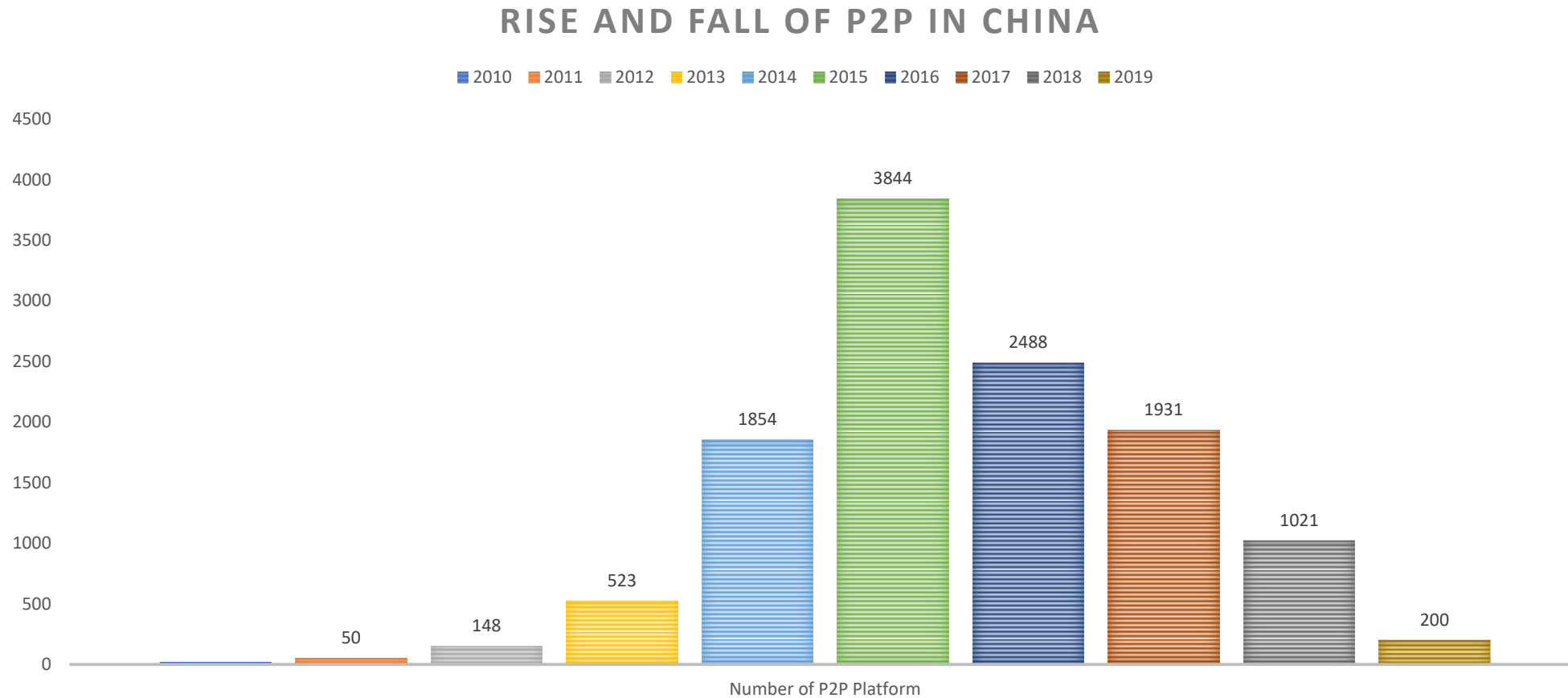
Investment in the loan
is not normally protected
by any guarantee



**Extra Risk: P2P Platform
bankruptcy**



Case: P2P Rise and Fall in China

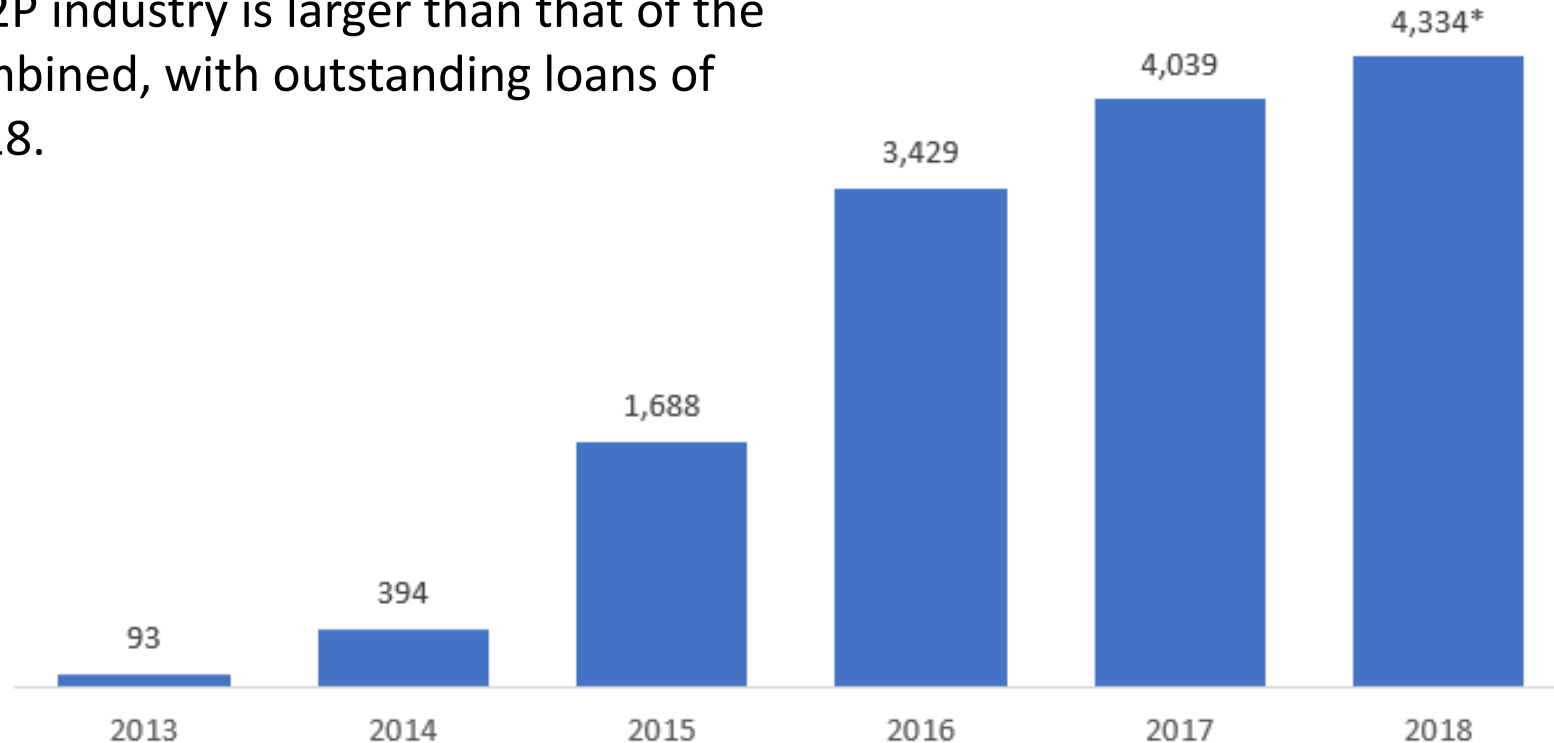


Source: Table is designed based the data retrieved from(1) <https://www.statista.com/statistics/652720/china-online-p2p-lending-platform-count/> and (2) <https://www.finextra.com/blogposting/17107/the-rise-and-fall-of-p2p-lending-in-china>

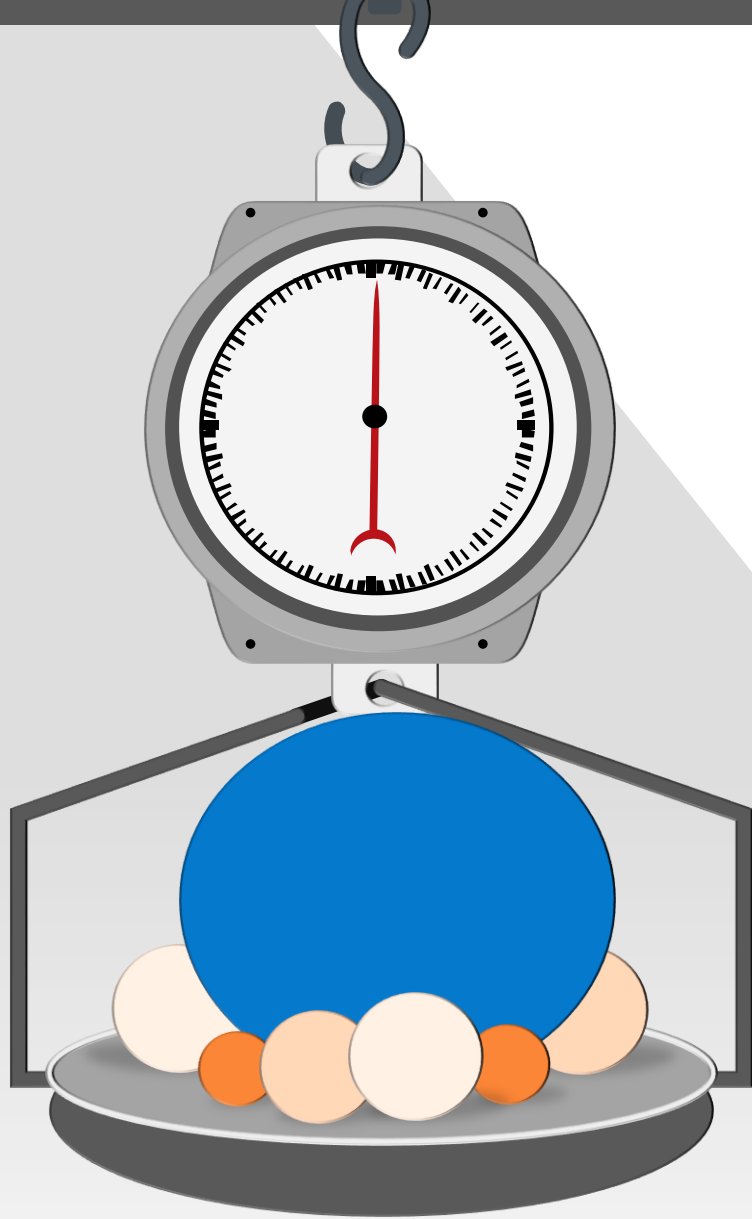
Case: P2P Rise and Fall in China

Failed Peer-to-Peer Lending Platforms in China (cumulative)

The size of China's P2P industry is larger than that of the rest of the world combined, with outstanding loans of US\$217.96BN by 2018.



Source: <https://www.bloomberg.com/news/articles/2019-01-02/china-s-online-lending-crackdown-may-see-70-of-businesses-close>



P2P Rise and Fall in China

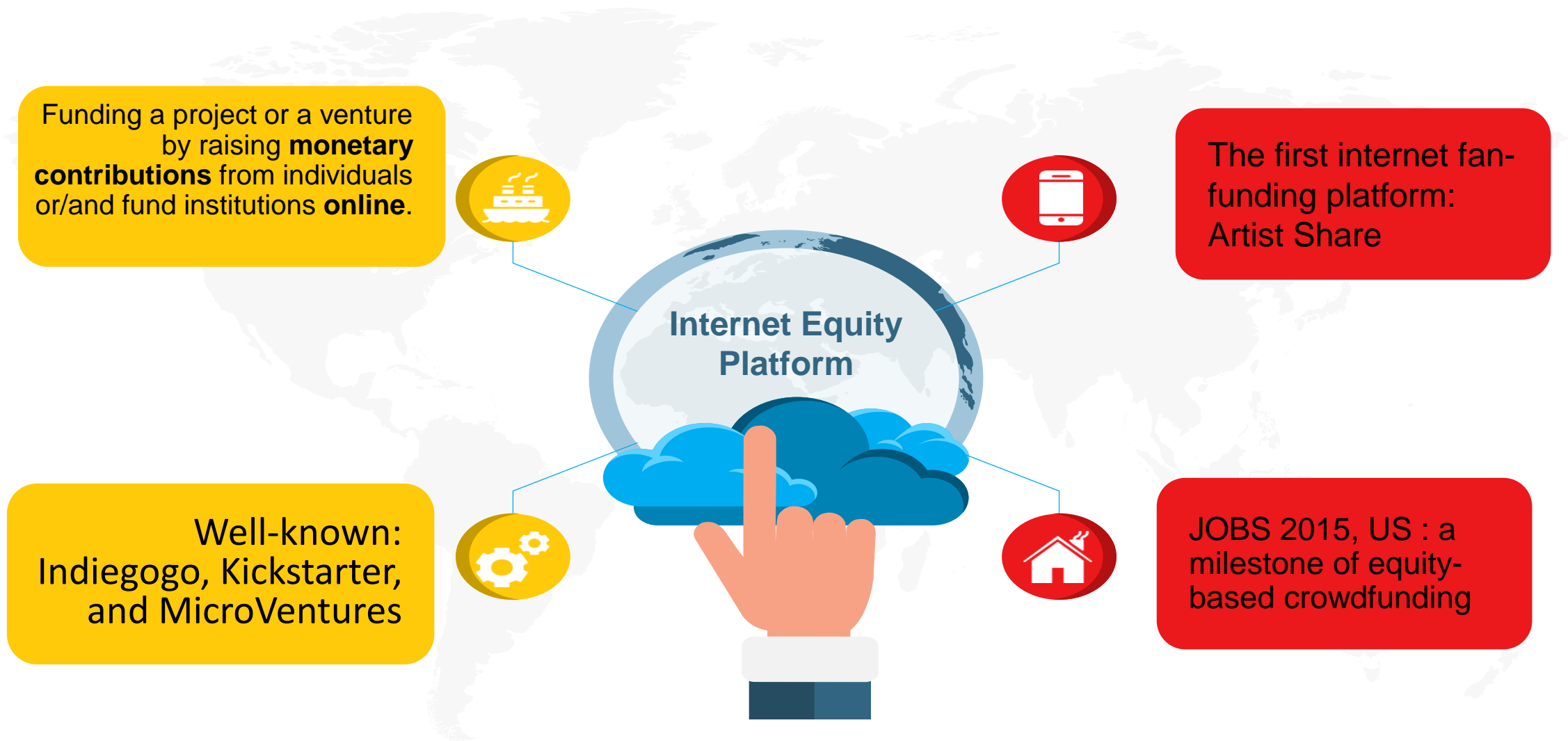
Rise

- New payment innovation (e.g. AliPay, WeChat Pay) has helped change the mindset and paved the way for the growth of the P2P sector
- P2Ps fill a gap in financial market to meet the need of individual borrowers and SMEs
- Absence of lending regulation sparked growth (nearly unregulated before 2016)
- Extremely higher expected return (8-12%pa on average) to attract lenders

Fall

- a combination of regulatory failures, fraud and the declining debt is being blamed

Equity-Based Crowdfunding



Traditional Offering

Private Equity/IPO

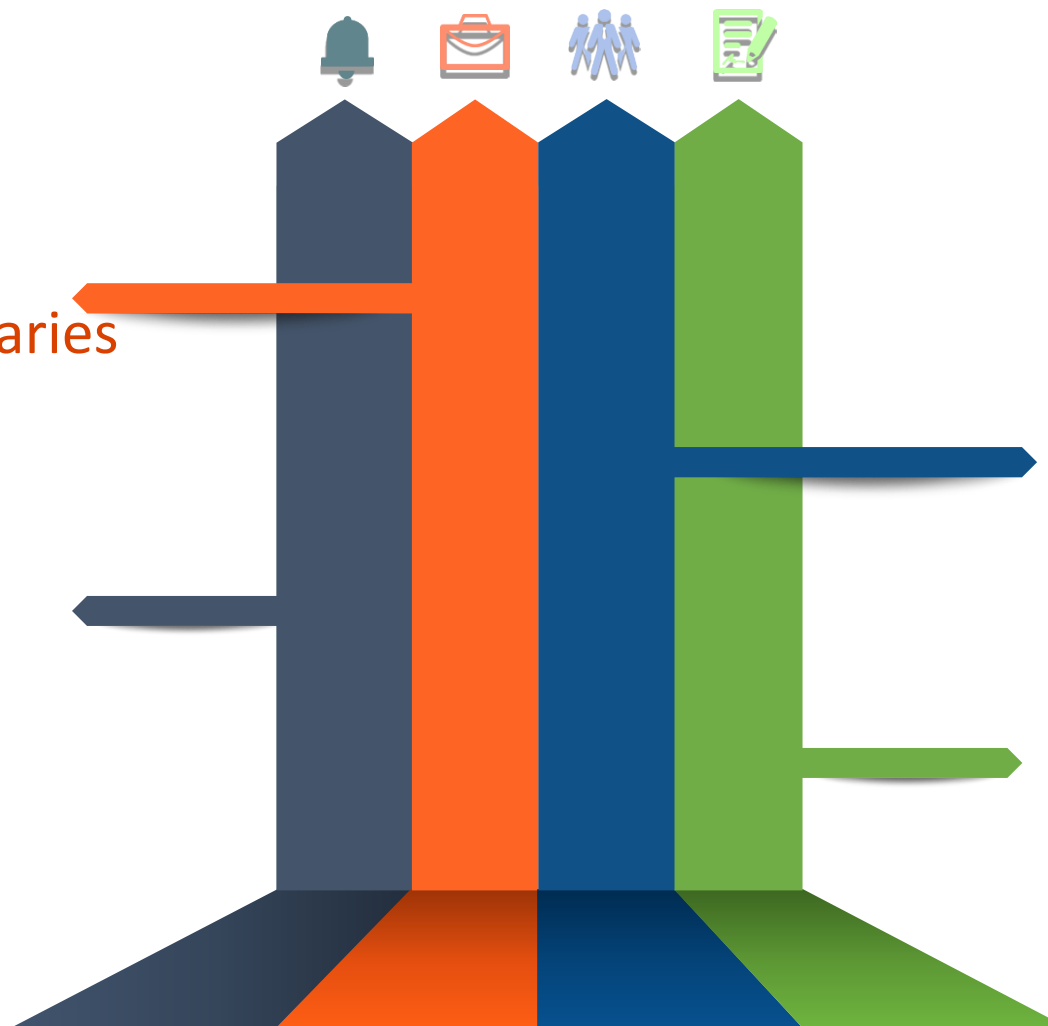
2. Through costly
established intermediaries

1. Tightly regulated
process

**Why Not
Banks**

4. Companies
tapping the
retail public for
capital

3. Prices with
uncertainties



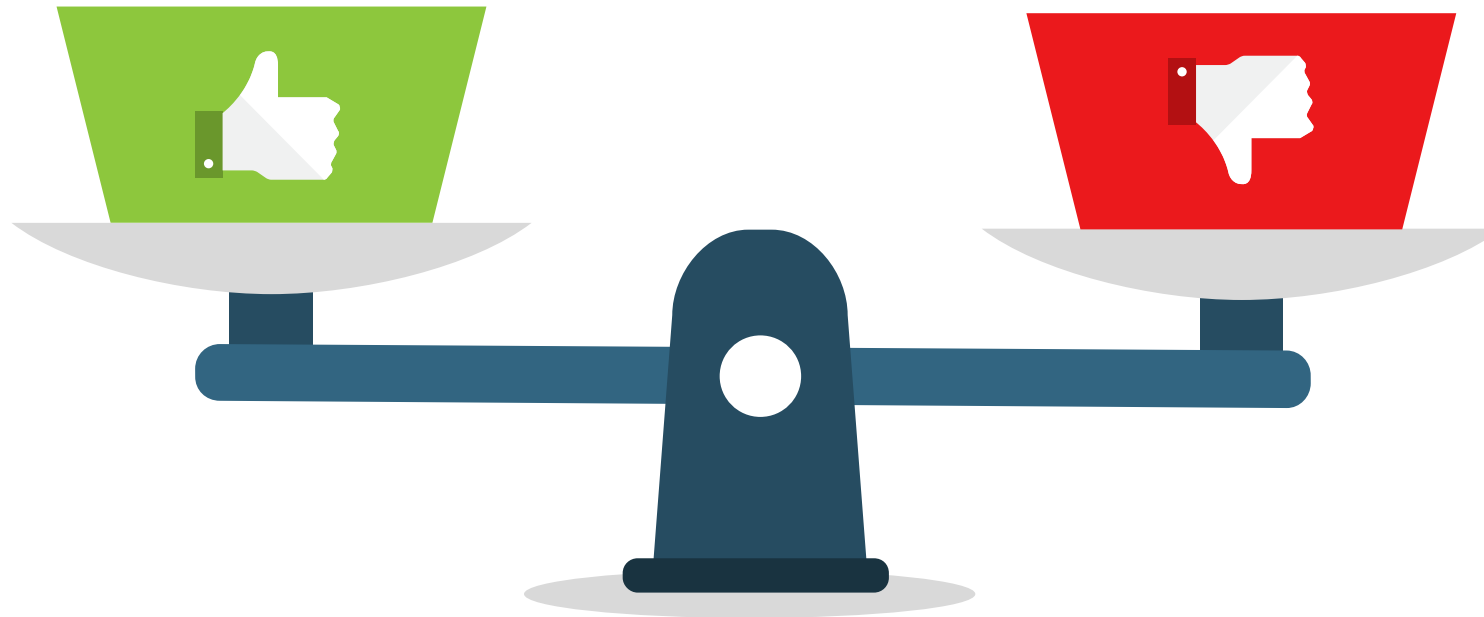
Is equity-crowdfunding better?

PROS

- Lower overheads
- Possible better rewards
- Lower Investment Minimums

CONS

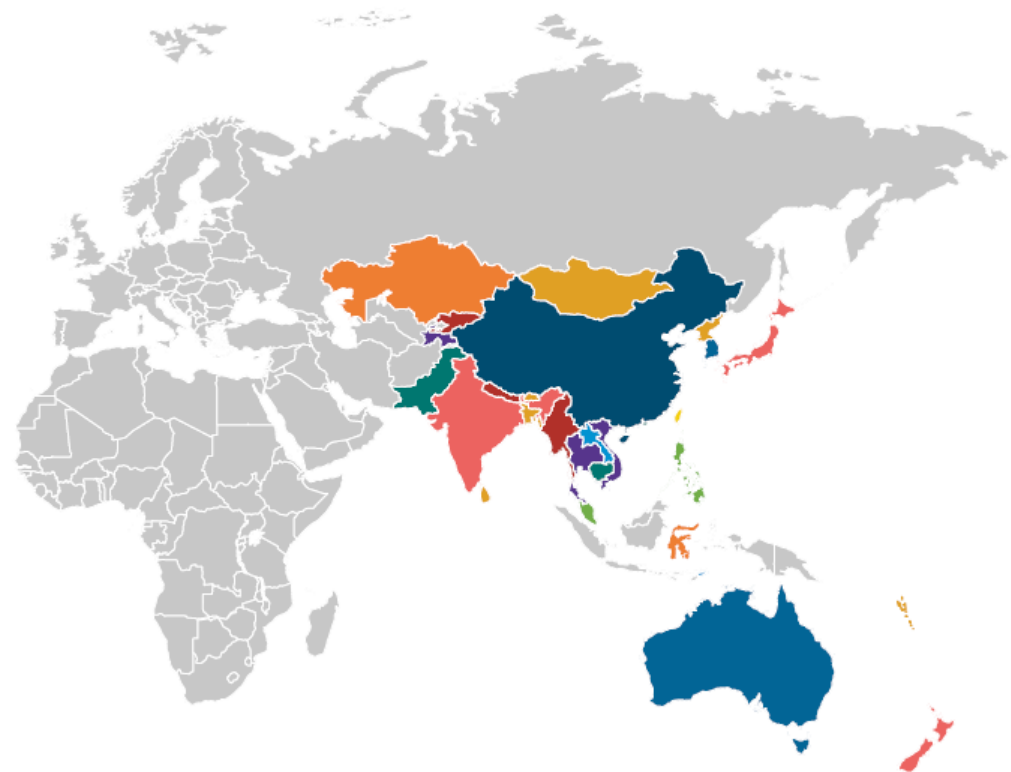
- Less liquidity
- Higher Risk
- Longer return horizon



US after JOBS

- Of the 6 million businesses, only 1,400 entrepreneurs have tried equity-crowdfunding
- Estimated raising cost via equity-crowdfunding in US is at least 10%
- For investors, hard to check out the expected rate of return

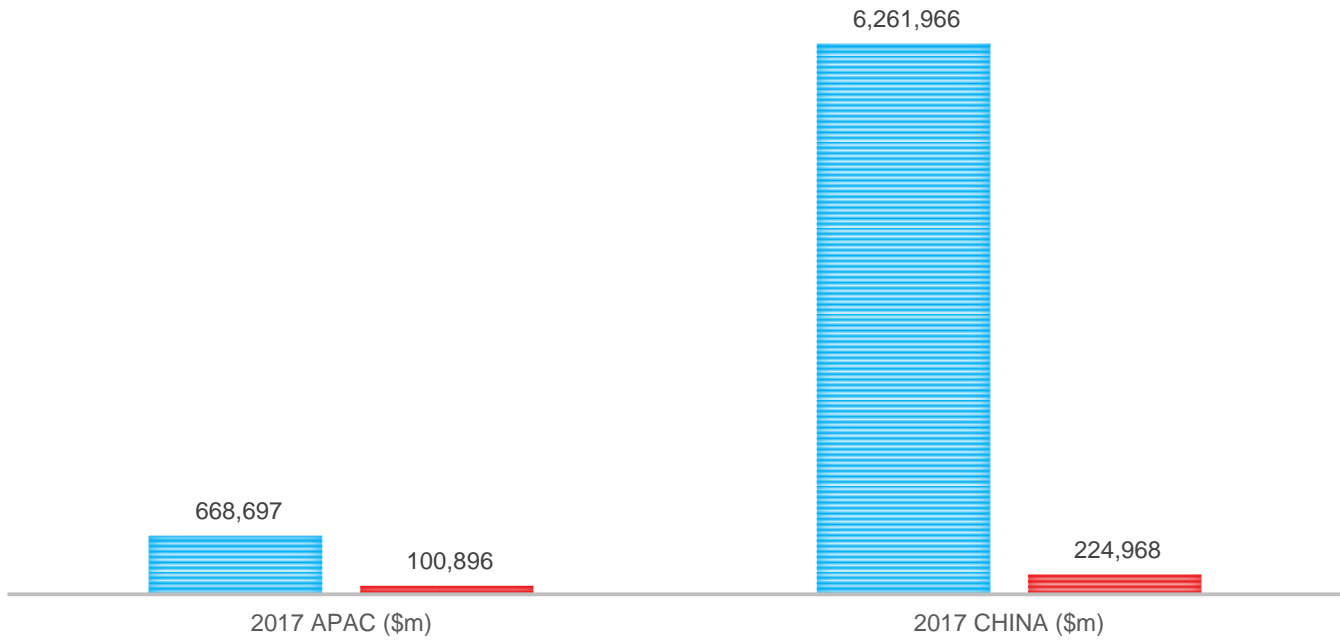
Alternative finance in APAC 2017



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ALTERNATIVE FINANCE IN APAC 2017

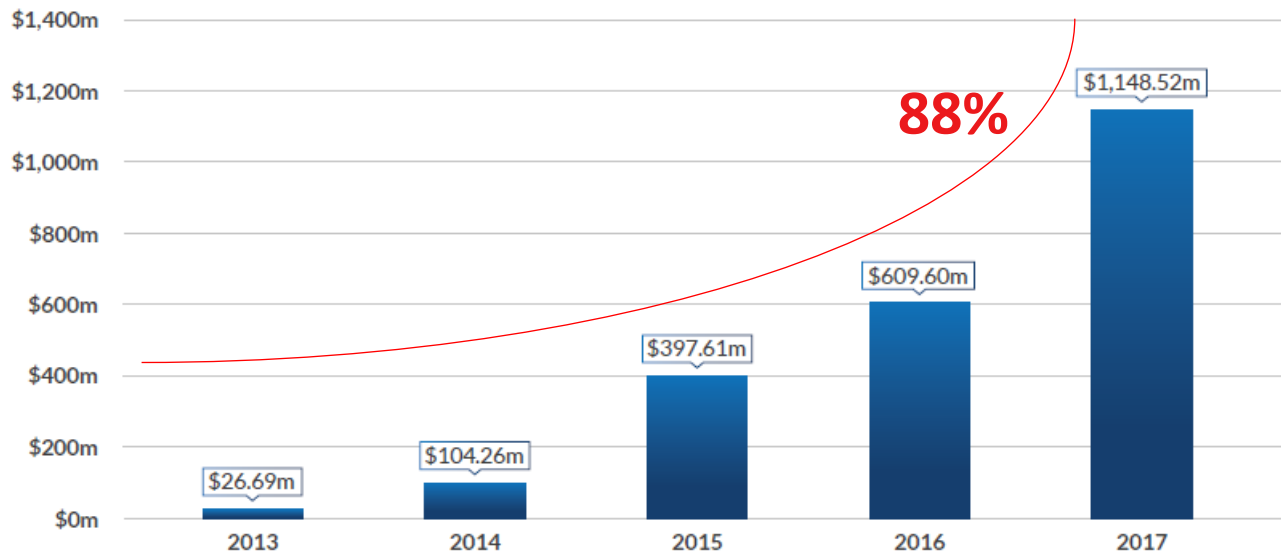
P2P Lending Equity-based Crowdfunding



Source: table is prepared based on page 31, The 3rd Asia Pacific Region Alternative Finance industry Report, 2018

Alternative Finance in Australia

Australia Total Alternative Finance Market 2013-2017 (\$millions)



- The largest country in terms of total alternative finance market volume in Asia Pacific region excluding China.
- Platforms adapt operational models and underwriting systems from both overseas operators and local banks
- The highest institutional participation rate : 65%
- Respective regulatory environment

Crowdfunding: A threat?

